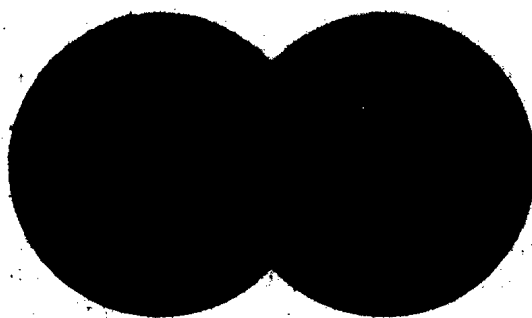


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

The events of the past week probably possess greater significance as portents of things to come than they do in terms of the immediate present. The event casting the longest shadow into the future may be the Warsaw meeting between Molotov and the foreign ministers of the Satellite states (see page 5). The communique issued at the close of the meeting on 24 June, calling for one more four-power attempt to reach agreement on a "provisional, democratic, peace-loving, all-German government," reveals the keen importance the USSR attaches to the retention of some participation in the control of western Germany, most notably the Ruhr.

Another event possessing implications which may reach far into the future took place this week in Greece when the Greek National Army pushed off on its long-awaited offensive against the guerrillas (see page 7 and map). Although early indications are that the army will reach its initial objectives despite stiff opposition, the final success of the campaign will hang upon the army's ability to seal the Albanian border and thereby prevent the re-forming of the scattered guerrillas at the end of the drive. Elsewhere in eastern Europe, there were signs that the Czechoslovak Government may soon take extreme measures against the non-Communists (see page 6).

Concurrent with Soviet obstructionist tactics in Berlin subsequent to the currency reform action in western Germany, Moscow-trained members of the NKFD (free Germany Committee) are infiltrating US Zone Germany in an apparent effort to penetrate ultra-rightist groups there (see page 3). In France, recent labor troubles have been quickly brought under control by vigorous Government action. Such unrest is, however, symptomatic of a basic unbalance in the wage-price-production phases of the French economy (see page 3). General Franco's efforts to win friends for Spain have seen some success recently in the sending of diplomatic representatives by four Latin American countries which had withdrawn their diplomats from Madrid in 1946 (see page 4).

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As the second week of the UN truce came to a close, the Arab-Jewish conflict in Palestine remained generally suspended. However, no indications have been forthcoming from Rhodes, where UN Mediator Bernadotte and Arab and Jewish representatives are conferring, that a solution which both parties will agree to is in sight (see page 9). An imposed solution still seems required. Meanwhile, further revelation that a decisive shift is taking place in the balance of power among Arab states has come in King Ibn Saud's invitation to his traditional enemy, King Abdullah of Transjordan, for a meeting in Saudi Arabia (see page 8).

Recent Soviet efforts to penetrate Southeast Asia have found expression in increased trade competition and Communist-inspired native violence (see page 11). The probability that present disturbances in Malaya will be prolonged may jeopardize the UK contribution to the European recovery program by reducing the output of one of the United Kingdom's major dollar-earning areas. In Japan, an agreement recently reached by SCAP will permit the manufacture of \$3½ million worth of railway equipment for the USSR (see page 11).

In Central America and the Caribbean, a tendency to rely more upon balance-of-power concepts and less upon international machinery for settling disputes threatens to hamper US plans for Hemisphere solidarity (see page 13). Argentina's intent to acquire a greater share in Latin American maritime activities is revealed by steps recently taken toward enlarging and nationalizing the Argentine merchant marine (see page 14).

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SECRET**WESTERN EUROPE****FRANCE**

Recent French labor troubles, starting with the Clermont-Ferrand strikes, though quickly brought under control by vigorous Government action, are symptoms indicating that the solution to the basic problems of the French economy has not been found. The Schuman Government is confronted with the almost impossible task of lowering prices, increasing wages, and raising production. Increased French production, of course, is the only long-term solution to the wage-price problem. The big question for the Schuman Government and the French people is whether the wage-price-production balance can be achieved without putting the French economy through the wringer. Originally, the sitdown strikes at Clermont-Ferrand were to enforce Communist demands for a 20% wage increase. The quick and forceful ejection of the workers from the plant was used by the Communists to focus attention upon the issue of the legitimacy of sitdown strikes. The Government is now considering taking a strong stand against the occupation of plants by workers, although the sitdown has become the traditional French strike technique. At the moment, however, the French public is not in sympathy with Communist-instigated strikes of a political nature, and the implications of police ejection of the Clermont-Ferrand strikers have apparently failed to arouse the French workers.

GERMANY

US Zone Germany is being infiltrated by Moscow-trained members of the Free Germany Committee (NKFD). Among members of the NKFD reported in the US Zone was the prominent Heinrich von Einsiedel who was in Wiesbaden probably for the purpose of coordinating an NKFD campaign to penetrate ultra-rightist political groups in western Germany.

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SPAIN

Franco's courtship of Latin American governments, which may be expected to continue as a part of his efforts to reestablish Spain's position in the community of nations, has resulted in widened diplomatic recognition. El Salvador, the Dominican Republic, Bolivia, and Paraguay -- which withdrew their representatives as part of the 1946 UN boycott of Spain -- have responded to Franco's blandishments by sending ambassadors and ministers to Madrid. Franco may now be expected to concentrate his efforts upon the larger states, such as Chile, Peru, Columbia, and Brazil. In these efforts, as in the past, Franco will have the strong support of Peron's Argentine Government.

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SECRET**E A S T E R N E U R O P E**

The continued Soviet desire to re-open quadripartite negotiations on the German problem has been indicated by the failure of the Warsaw Conference to produce formal plans for a provisional government of eastern Germany and the Warsaw communique calling for a further four-power attempt to unify Germany. Concurrently, intensified Soviet obstructionism in Berlin appears designed to force the western powers to agree to renewed discussions in which the USSR would undoubtedly demand that the entire German problem be reconsidered. These Soviet efforts are prompted primarily by a desire to obtain some measure of control of western Germany, particularly the Ruhr, or at least to sabotage or slow down the western program, including European recovery, rather than by any sincere desire for a just and equitable solution of the German question. The communique of the Warsaw Conference, in its appeal for German unity and renewed efforts for quadripartite agreement, provides the Kremlin with a propaganda theme which will undoubtedly attract many adherents not only in Germany but throughout western Europe and the US.

SOVIET UNION

The USSR is continuing to stockpile iron and steel scrap through collections in Byelorussia and imports from Germany and Austria, even though the present Soviet scrap supply is probably more than adequate. Besides the potential strategic value of a large stockpile of scrap, such stockpiling enables the USSR to sell scrap to the western powers and thereby obtain dollars with which to finance operations and purchases in the western European area.

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SECRET**CZECHOSLOVAKIA**

The large percentage of Czechoslovak blank and invalid-dated ballots (estimated at 40%) which were cast in the recent elections served to warn the Government that considerable anti-Communist feeling exists among the general public. As a consequence, newly-elected Premier Zapotocky is reported to be planning more extreme measures to neutralize dissident elements throughout the country. The stage has been set for such a campaign of terror and intimidation by the Government's action in numbering each ballot with invisible ink, thus making possible the identification of those Czechoslovaks who cast the protest votes.

FINLAND

The Finns will be unable to use a cent of the recent \$5 million Soviet loan because they will be unable to repay it at the end of six months. The USSR, however, will receive a double dividend in the form of an effective propaganda weapon and the investment at 2% of \$5 million now idle in the US.

RUMANIA

Communist control over the Rumanian economy was virtually completed by the sudden nationalization on 11 June of all principal industrial enterprises, banks, insurance companies, and mineral wealth. (The joint Soviet-Rumanian companies were exempted.) Militarily, the nationalization decree will facilitate implementation of Soviet plans for the development of Rumania's war production, while politically the Rumanians now have legal justification for the rapid elimination of all western influence in former foreign-owned concerns such as the US and UK oil companies. The dislocations resulting from nationalizing so rapidly, however, will temporarily handicap Rumanian industry, which is already suffering from severe shortages of raw materials and vital machinery.

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10983 Map Branch, CIA, 6-48

SECRET**GREECE**

The long-heralded Greek Army offensive against the heart of the guerrilla strength in the Grammos Mountains has during the first few days been inconclusive. Both the army and the guerrillas realize that on this operation will depend the immediate military future of the rebellion, and both are fighting cautiously but determinedly. The army forces of 70,000 have a superiority in size and supplies, and possess air support; the guerrillas (numbering some 7,500) have the advantage of rugged terrain, strongly prepared positions, extensive mine fields, and, at the moment, a safe flank on the Albanian border. Already there are reports that hard-pressed guerrilla detachments have crossed the border to circle back on Albanian territory and attack army units from the rear. The army will probably be able to attain its initial objectives despite the stiff opposition it is encountering. The important test, however, will be whether the army can seal the Albanian border and prevent the scattered guerrilla bands from re-forming when the drive is over.

The accompanying map shows the locale of the operations. Near the southern part of the Albanian border, army units have penetrated northward for a distance of some ten miles parallel to the border. Near the Albanian border in the north, army units are attacking southward in an attempt to effect a junction with the prong driving northward along the border and thereby complete encirclement of the guerrillas and prevent their escape into Albania. In almost all sectors, the army's rear is threatened (although not vitally) by guerrilla forces from outside the operational area.

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SECRET**NEAR EAST - AFRICA****ARAB STATES**

A Saudi-Hashimite understanding may develop out of the meeting which will take place later in June in Saudi Arabia between King Abdullah of Transjordan and Ibn Saud. Ibn Saud's show of friendship by inviting Abdullah, his traditional enemy; to meet with him provides further evidence of a decisive shift in the balance of power in the Arab states. The recent rapprochement between Egypt, Transjordan, and Iraq, resulting from their parallel military responsibilities in Palestine, dangerously isolated Saudi Arabia. Ibn Saud, who has been frantically but unsuccessfully soliciting US military aid for several months in order to defend himself against alleged threats of Hashimite aggression, has probably come to the conclusion that he can no longer afford to maintain his dynastic feud with the Hashimites. Moreover, because of the passive role which he has until now played in the Palestine war, Ibn Saud probably fears that he has lost face among the Arabs, who have demanded that their leaders take forceful action in Palestine. By agreeing to support Abdullah wholeheartedly against the Zionists, Ibn Saud will not only improve his prestige in the Arab world but may also be able to persuade Abdullah to abandon his claims to the Saudi Arabian province of the Hejaz, which Ibn Saud took from the Hashimites after World War I. Whether such a "deal" will result from the forthcoming meeting (to which the Hashimite Regent of Iraq has also been invited) is difficult to say, but it is undoubtedly what Ibn Saud is after. Other Arab leaders, particularly officials of the Arab League, will doubtless welcome Ibn Saud's gesture as an indication that traditional rivalries, which have hitherto seriously hampered Arab unity, are in the process of being dissolved.

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SECRET**PALESTINE**

The Palestine truce is proving effective despite minor infractions by both Arabs and Jews. The difficult problems of Jewish immigration and supplying beleaguered Jerusalem have been settled more or less to the satisfaction of both sides. Jewish and Arab representatives are in Rhodes for consultation under UN Mediator Bernadotte. Despite these encouraging signs, a solution agreed to by both Arab and Jew appears as remote as ever. The UK is exploring the idea that the Arabs might be persuaded to accept "a small, compact sovereign Jewish state." Even if the Arabs should prove amenable to such a suggestion, there is no reason to believe that the Jews would accept anything less than the territory assigned them by the UN partition plan. Thus, neither the fighting since 15 May nor the UN truce has changed the basic issues between the Jews and Arabs. It appears that a solution will have to be imposed by one side on the other, or by some outside force on both.

IRAN

Internal political dissension is threatening Iranian stability and is also diverting both official and popular attention from the constant danger of Soviet encroachment. The election of Hajir to the premiership has brought on popular demonstrations which have been instigated by strong, hostile factions and participated in by members of the pro-Soviet Tudeh Party. Hajir's Cabinet, which contains a number of ultra-conservative and inexperienced men, may prove ineffectual in coping with the demoralized political situation. Meanwhile, Soviet pressure on Iran continues and has recently included several forays from the USSR into Iranian territory.

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SOUTH AFRICA

The new Malan Government is already proving unco-operative in Commonwealth defense matters, although there are no reports of the abrogation of formal commitments between South Africa and the UK. Plans to send senior officers to the Imperial Defense College have been cancelled, and South Africa may request substitute training arrangements with the US. In the administration of Union Defense Forces, Afrikaans has replaced English as the official language; this not only obstructs all aspects of defense cooperation but penalizes South African officers who speak only English.

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SECRET**F A R E A S T**

Soviet penetration of Southeast Asia seems to be taking the forms of increased trade competition and the instigation of native violence against established UK and local authority. The USSR has recently offered to buy unlimited quantities of tin and as much as 3,000 tons of rubber per month in Siam. Czechoslovakia has also expressed interest in obtaining rubber and other commodities from this area. Besides these offers of trade, Soviet shipping facilities are reported to be available; Soviet and Czechoslovak representatives are apparently agreeable to payment in dollars, pounds, or by barter. While these trade offers are being made, UK and local authority in the Malay States is being threatened by terrorist activities which are in large part Communist inspired and directed. Arson and murder recently became so widespread that the UK High Commissioner extended special police powers to local authorities throughout the entire Federation of Malaya to combat the crimes. Prolonged disturbances in Malaya, which are now considered to be probable, would deprive the UK of a major dollar-earning area and the US of vital raw materials. Such losses could seriously reduce the UK contribution to the European recovery program.

JAPAN

The USSR will receive from Japan \$ 3½ million worth of railway rolling stock in return for coal, coking coal, wood pulp, and other raw materials under the terms of an agreement reported to have been completed recently by SCAP. SCAP apparently takes the view that the narrow-gauge railway rolling stock manufactured in Japan will add little to the war potential of the USSR whereas Japan will receive quantities of essential materials not obtainable elsewhere at this time.

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SECRET**JAPAN**

The present Japanese coalition government is determined, if mounting pressures compel its fall, to dissolve the Diet and hold elections rather than resign and turn over executive authority in Japan to the conservative Democratic-Liberal Party. This party, as the largest in the House of Representatives, claimed the right to form a new government when the Katayama Cabinet fell in February. Since that time, the Democratic-Liberals have increased their parliamentary strength while desertions and dissension have seriously weakened the Ashida Cabinet's hold over the Diet. If the Ashida Cabinet should resign, the Democratic-Liberals could probably establish a coalition government which they could dominate; they might be able to establish a single-party government.

AUSTRALIA

An Australian attack on US policy may be made by Minister of External Affairs Evatt at the next meeting of the UN General Assembly. Evatt, who fancies himself as a mediator between the East and the West, reportedly plans to protest against the US policy of opposing loans to Poland and other Satellite states. Evatt's stand would be consistent with recent Australian gifts of wool to eastern, as well as western, European countries. It would also be in line with an anticipated attack by Soviet representatives upon western economic aggression.

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SECRET**W E S T E R N H E M I S P H E R E**

Central American and Caribbean republics seem to be relying more and more upon balance-of-power concepts. Because revolutionaries are permitted with relative impunity to operate in one republic against another, the area has become divided into two protective blocs of power, each antagonistic to the other. The governments of Central America are also increasingly incapable of solving the problems of friction in their inter-governmental relationships. The recent civil war in Costa Rica has demonstrated that even shaky regimes are difficult to oust by revolutionaries operating solely from within their own territories. The aid from Guatemala received by the rebel leader, Figueres, proved the deciding factor in the civil conflict in Costa Rica. In a recent diplomatic exchange between the Dominican Republic and Cuba, the Dominican Republic indicated its recognition that a revolutionary threat against one republic was the direct concern of all.

Sharpening rivalry between the two hostile blocs in the Caribbean will make difficult the implementation of the US concept of Hemisphere solidarity. Also, it will reduce the chances for ideological unity within the area and impair the desire to prevent political incursions from without.

ARGENTINA

The indefinite status of ECA negotiations with Argentina, concerning purchases in Argentina to meet ECA commitments in 1948, involves a potentially adverse effect on the attitude of the Peron administration toward the US. Contrary to recent indications, the latest information suggests that substantial ECA purchases may be agreed upon in the near future. The Peron regime has for months counted on such dollar receipts to alleviate its current critical dollar shortage and deficits in essential imports. If the negotiations result in a drastic

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SECRET**ARGENTINA**

disappointment of Argentine expectations, the Peron regime may be expected to act less cooperatively with the US and to increase its anti-US propaganda at home and abroad.

The projected growth of the Argentine merchant marine, together with recent steps toward complete nationalization of the merchant marine, is indicative of Argentina's intention to play a larger part in Latin American marine activities. The remaining 37% of Argentina's privately-owned merchant vessels are about to be sold to the Government as soon as financial arrangements can be made. Argentina has also built up its state-owned fleet largely through foreign purchases in Italy and the US. The Argentine decision to expand its merchant marine is probably based on recognition of the value of such a fleet for: (1) achieving independence of foreign powers in the conduct of its trade; (2) the political advantages to be obtained in relation with neighboring states which need such space for trade; and (3) the material profits to be garnered as a neutral carrier of essential wartime goods in the event of European hostilities.

PARAGUAY

The growing popularity of Provisional President Frutos may prevent President-elect Gonzalez from taking office on 15 August. By striving to unify the dissident elements of Paraguay's single active political party, Frutos has increased his personal popularity and improved his chances of remaining in office. However, the three-way split in the dominant political group, occasioned by the entry into the presidential race of a third candidate, militant Molas Lopez, may lead to another political crisis in which the deciding factors might be the cavalry division of the armed forces and the Asuncion police. The cavalry and police staged the 3 June coup which deposed President Morinigo, and they may be capable of determining the immediate political destiny of whichever candidate they choose to support. Although the Asuncion police are definitely supporting Molas Lopez, the cavalry has not indicated its preference or intentions.

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SECRET**PERU**

President Bustamante, assured of continued army support, has accepted the resignation of his all-military Cabinet. Threatening resignation unless Bustamante acceded to its demands, the former Cabinet had insisted that the July session of Congress not be allowed to convene and that APRA (Peru's largest party of the non-Communist left) be outlawed. The fact that the President felt strong enough to defy his Cabinet and proceed with the formation of a new one seems to indicate that he felt he could count on support from a sufficient section of the Armed Forces to maintain his Government despite recent indications that the loyalty of certain sections of the military might be subject to question. His action probably indicates also that he feels anti-APRA elements are less likely to precipitate a coup. Bustamante's new Cabinet, headed by General Reveredo as Foreign Minister, reportedly may veer away from the fanatically anti-APRA policies of its predecessor and follow a more conciliatory course vis-a-vis the strong APRA elements in Peru.

VENEZUELA

Alarmist reports emphasizing Venezuelan political instability have recently become so numerous and so frequent as to be suspect. In an apparent effort to capitalize on US preoccupation with the security of the Venezuelan oilfields, the Venezuelan Government has greatly exaggerated recent incidents as a means of securing US arms. Venezuela probably is exerting this pressure to get arms (ostensibly for the purpose of maintaining order) as a means of strengthening its position in the Caribbean's precarious balance-of-power situation.

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